Discussion of

Institutional Quality, Economic Policy and the Effect of Commodity Booms Across Industries

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January 5th, 2009

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Overview

- Extensive literature on the hypothesis of the resource curse: Sachs and Warner (1995, 1999, 2001).
- Mixed evidence in support of resource curse:
  - Lederman and Maloney (2008);
  - Brunnschweiler and Bulte (2008);
  - World Bank (2009).

In This Paper (1)

- Instead of using cross-section regressions, the author applies panel-data estimators to control time and country fixed effects.

- Findings: the commodity index (resource wealth gain) has a significantly negative impact on the manufacturing sector.

In This Paper (2)

- Which manufacturing industry characteristics matter?
  - Institutional complexity;
  - Production factor intensity;
  - Exportability.

- Findings: industries are affected more negatively if they are:
  - More institutional intensive;
  - More labor-intensive;
  - More financially dependent on external sources;
  - More export oriented.

In This Paper (3)

- Will institutional quality and economic policies matter?

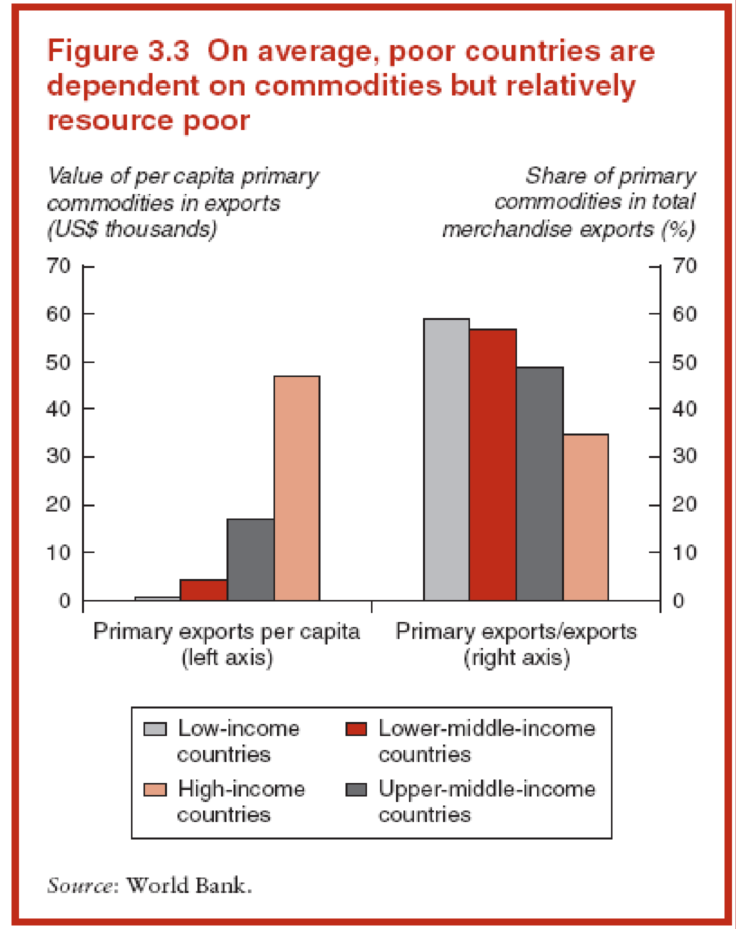
- Findings:
  - Exporting industries suffer less if good institutions, high level of investment, and no exchange rate overvaluation;
  - External financing dependent industries suffer less if good institutions, low indebtedness and low output volatility;
  - Labor intensive industries suffer less if low output volatility and indebtedness and no exchange rate overvaluation;
  - Institutional intensive industries suffer less if good institutions, low output volatility and high investment.

My Comments (1)

- Is the commodity boom proxy used in the regressions appropriate for measuring resource curse effects? Will it suffer from an endogeneity problem?
- The inclusion of time and country fixed effects will correct the endogeneity as long as such endogeneity is related to omitted time-invariant or country-invariant variables.
- But if the endogeneity is related to omitted time-varying or country-varying regressors or reverse causality, then the estimated coefficients could be biased.
- The industry characterisitics variables also potentially suffer from an endogeneity problem, which could lead to a biased coefficient of the interaction term.

My Comments (2)

- Conceptual distinction: resource abundance vs. resource dependence



Source: World Bank. Global Economic Prospects 2009, page 99.